

State of Arizona
Office
of the
Auditor General

PERFORMANCE AUDIT

**ARIZONA
COMMISSION
ON THE
ARTS**

Report to the Arizona Legislature
By Debra K. Davenport
Auditor General

**June 2001
Report No. 01-11**

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AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

June 20, 2001

Members of the Arizona Legislature

The Honorable Jane Dee Hull, Governor

Ms. Shelley M. Cohn, Executive Director
Arizona Commission on the Arts

Transmitted herewith is a report of the Auditor General, A Performance Audit of the Arizona Commission on the Arts. This report is in response to a June 16, 1999, resolution of the Joint Legislative Audit Committee. The performance audit was conducted as part of the Sunset review set forth in A.R.S. §41-2951 et seq. I am also transmitting with this report a copy of the Report Highlights for this audit to provide a quick summary for your convenience.

As outlined in its response, the Arizona Commission on the Arts will implement 3 of the 4 recommendations directed at the Commission and implement one recommendation in a different manner.

My staff and I will be pleased to discuss or clarify items in the report.

This report will be released to the public on June 21, 2001.

Sincerely,

Debbie Davenport
Auditor General

Enclosure

SUMMARY

The Office of the Auditor General has conducted a performance audit and Sunset review of the Arizona Commission on the Arts (Commission) pursuant to a June 16, 1999, resolution of the Joint Legislative Audit Committee. This audit was conducted as part of the Sunset review set forth in A.R.S. §41-2951 et seq.

Established by executive order in 1966 and by statute in 1967, the Commission's main purpose is to encourage the presentation and appreciation of the performing and fine arts throughout Arizona. The Commission largely fulfills this purpose by providing financial support in the form of grants to help pay arts organizations' administrative expenses and to help fund arts education and other artistic projects throughout the State. The Commission's existence also makes Arizona eligible to receive and disburse federal funding for the arts from the National Endowment for the Arts (NEA). The NEA has consistently ranked the Commission as one of the best arts commissions in the country.

The Commission's Grants Provide Varied Benefits to Organizations and Projects Statewide (See pages 11 through 20)

The Commission provides grants that benefit arts organizations and projects throughout the State. The Commission estimates that in fiscal year 2001, nearly two-thirds of its spending will be for grants to arts organizations, schools, and other community organizations. It issues grants to both large and small arts organizations to help pay administrative expenses. It also issues grants to organizations for arts education and other arts projects. These grants provide different but important benefits, according to grant recipients auditors spoke with.

- **General operating support grants to large organizations (approximately \$1.14 million in fiscal year 2001)**—These grants fund 2.3 percent of administrative expenses for 13 large arts organizations, such as the Arizona Theatre Company and the Museum of Northern Arizona. These organizations said the grants provide more flexibility than most other funding they receive, which is often earmarked for specific projects. They also said a Commission grant acts as a “seal of approval” that gives them added credibility with the public and helps them raise additional funding from private sources.
- **General operating grants to smaller organizations (approximately \$1.1 million in fiscal year 2001)**—These grants went to more than 120 smaller arts organizations for operating expenses. Grant recipients said the grants were important to their core operations, such as covering a substantial portion of a director’s salary, maintaining current projects and services, and making the arts more accessible to children and rural and ethnic communities.
- **Arts education project grants (approximately \$425,000 in fiscal year 2001)**—These grants support 260 education-specific projects throughout the State for such things as arts-related after-school programs or hiring artists to work in schools. Many of these programs target particular populations, including rural communities and minorities.
- **Other arts project grants (approximately \$471,000 in fiscal year 2001)**—These grants funded artistic projects such as theatre productions, festivals, and music performances throughout the State. Some grant recipients said that without the grants, programs would have to be canceled or scaled back.

**The Commission Needs to Improve Its Management of the Endowment Program
(See pages 21 through 24)**

The Commission needs to improve its management and oversight of the State's arts endowment program. In 1996, the Legislature established the State's arts endowment program, known as Arizona ArtShare, to establish a public-private partnership for the long-term funding of the arts in Arizona. ArtShare consists of state monies placed in the Arizona Arts Endowment Fund (Endowment Fund) to generate investment income to benefit the Commission and donations made to foundations under contract with the Commission to receive such donations on its behalf. The Commission contracts with private foundations because private donors are sometimes reluctant to donate to government-run endowments. The Commission also considers donations to private arts endowments as contributions to ArtShare. Auditors found two problems with the Commission's management and oversight of and use of investment income from one foundation contracted to collect private donations.

- A foundation under contract with the Commission to receive and invest private donations to the endowment program charged three times more than it should have for its administrative fees in 1999 and 2000. The Commission did not know that the contractor had deducted \$17,550 more than it should have because the Commission did not review the quarterly statements the contractor submitted. The Commission recovered these monies from the foundation in March 2001.
- The Commission inappropriately used approximately \$3,000 of investment income from private donations managed by the contractor. The money was used to create a database and to pay phone and promotional expenses. While these expenditures were related to the endowment program, they were inappropriate because they were not used in conjunction with interest earned from state contributions to the Endowment Fund, as required by statute. In addition, the Commission's policies state that such monies should be used to support specific purposes, such as management training and administrative expenses for arts organizations.

**Sunset Factors
(See pages 25 through 34)**

The Commission appears to be effectively meeting its objective and purpose and generally operates efficiently. However, one statutory change is needed to resolve certain outstanding issues.

The Legislature should consider amending the Commission's statutes to establish the position and responsibilities of the Commission's executive director and to clarify the role of the Commission's chairperson. Current statutes state that the Governor-appointed chairperson shall be the Commission's chief executive officer. Although the Commission has employed an executive director for most of its history, the statutes do not allow the Commission to delegate discretionary responsibilities to the executive director. As a result, many day-to-day decisions, such as spending and personnel matters, must be approved by the Commission members.

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INTRODUCTION AND BACKGROUND

The Office of the Auditor General has conducted a performance audit and Sunset review of the Arizona Commission on the Arts (Commission) pursuant to a June 16, 1999, resolution of the Joint Legislative Audit Committee. This audit was conducted as part of the Sunset review set forth in A.R.S. §41-2951 et seq.

History and Purpose

In 1966, the Governor signed an executive order to establish what is now known as the Arizona Commission on the Arts. One year later, the Arizona Legislature established the Commission in statute. The purpose of the Commission is to encourage the presentation and appreciation of the performing and fine arts throughout Arizona. The existence of the Commission also makes Arizona eligible to receive and disburse federal funding for the arts from the National Endowment for the Arts (NEA). The NEA has consistently ranked the Commission as one of the best arts commissions in the country, and in January 2000 it scored Arizona as the best commission among its pool of 14 arts commissions.

The Commission:

- Provides financial support to arts organizations and for arts projects in the State through its grants program;
- Sponsors programs that make the arts more accessible to rural and other underserved communities, and helps arts professionals attend workshops and seminars that provide management training; and,
- Serves as a clearinghouse of information and referrals for communities, arts organizations, schools, and artists.

Organization and Staffing

The Commission consists of 15 Governor-appointed members who serve three-year terms. Members are selected from throughout the State for their experience in arts-related fields.

The Commission provides executive oversight of the agency's day-to-day operations, which are managed by an executive director.

The executive director directs 20 full-time equivalent (FTE) staff. Ten and one-half of the Commission's FTE perform administrative and support duties, such as managing the Commission's budget, contracts, and the release of grant funds; recruiting and coordinating grant review panels; updating and maintaining the Commission's Web site; providing information to the public; maintaining, transporting, and installing traveling art exhibits; and updating and maintaining grant applicant databases. The other nine and one-half FTE manage the Commission's various programs to stimulate the arts in Arizona and provide support services to grant applicants and recipients.

The Commission's Grants Program

Most of the Commission's budget is granted to nonprofit arts organizations, schools, and other community organizations to help pay for administrative expenses or specific arts projects (see Finding I, pages 11 through 20). The Commission offers two types of organizational grants:

- General operating grants provide monies to assist with administrative expenses for arts organizations whose primary mission is to produce or present the arts. General operating grant awards are based on a percentage of the organization's operating budget, or can be awarded to pay up to 50 percent of the organization's managing director's salary.
- Project grants provide monies to schools, local governments, and other community organizations for arts education and

Introduction and Background

other artistic projects such as theatre productions, musical performances, and arts festivals. These grants may fund up to 50 percent of a project's costs.

The Commission issues grants to organizations and individuals.

General operating and project grants are awarded on an annual basis. Each year, the Commission's largest grants to large arts organizations in Arizona are reviewed directly by the Commission members. Other grants are reviewed first by several peer review panels that judge grant applications on criteria such as artistic quality, service to the community, managerial ability of the organization, and the appropriateness of the projected budget. Additionally, statutes require that the Commission award a portion of its grant monies to benefit underserved communities. After reviewing the applications, the panels make funding recommendations to the Commission members, who make all final grant award decisions.

In addition to grants to organizations, the Commission also provides fellowships and grants to individuals from Arizona's arts community.

- Fellowships award up to \$7,500 to professional artists in Arizona to recognize their artistic excellence in areas such as creative writing, performing arts, and visual arts.
- Professional development grants are awards of up to \$750 that help individual Arizona artists and representatives of smaller arts organizations attend arts conferences and workshops that will contribute to their professional development.

Funding and Budget

As presented in Table 1 (see page 5), the Commission's fiscal year 2001 estimated operating revenues are approximately \$4.8

million.¹ These revenues come from state, federal, and other sources.

- General Fund appropriations compose an approximate \$2.4 million, or 50 percent, of the Commission's estimated operating revenues, the single largest source of agency revenue for fiscal year 2001. Some of the General Fund appropriations are restricted for use in the Commission's grants program.
- A portion of corporate filing fees collected by the Arizona Corporation Commission is placed in the Arizona Arts Trust Fund. For fiscal year 2001, this funding makes up an estimated \$1.3 million, or 27.2 percent, of the Commission's operating revenues. The Arizona Arts Trust Fund helps pay for general operating grants to arts organizations.
- Intergovernmental funding for the arts comes from the NEA and other agencies. As Arizona's official state arts agency, the Commission receives an annual federal aid grant from the NEA. The Commission also receives NEA funds for special grant projects. For fiscal year 2001, the Commission estimates that federal funding from the NEA will make up \$609,200, or 12.7 percent, of the Commission's estimated operating revenues. In addition to funding from the NEA, the Commission estimates it will receive \$393,600, or 8.2 percent of its operating revenues from other federal, state, and local government sources. This includes grant monies from the U.S. Department of Labor for an arts education School-To-Work initiative that the Commission has received since 1999.²

¹ The Commission's operating revenues include only the monies that are available for the Commission to spend. This does not include annual appropriations to the Arizona Arts Endowment Fund, which are not available to spend, nor the interest earned on those monies. See Table 2, page 7, for information regarding the Endowment Fund's appropriations, interest earnings, and expenses.

² The U.S. Department of Labor issued a School-To-Work grant to the Arizona Department of Commerce, which re-granted a portion of its School-To-Work grant to the Commission.

Table 1

Arizona Commission on the Arts
Statement of Revenues, Expenditures, and Changes in Fund Balance ¹
Years Ended or Ending June 30, 1999, 2000, and 2001
(Unaudited)

	1999 (Actual)	2000 (Actual)	2001 (Estimated)
Revenues:			
State General Fund appropriations	\$2,360,400	\$2,365,900	\$2,376,100
Sales and charges for goods and services:			
Corporate filing fee ²	1,199,070	1,299,435	1,300,000
Other	14,487	11,609	18,400
Intergovernmental:			
National Endowment for the Arts	598,141	597,502	609,200
Other federal, state, and local	108,521	208,702	393,600
Private gifts and donations	27,666	58,641	52,500
Other	<u>36,590</u>	<u>30,644</u>	<u>36,000</u>
Total revenues	<u>4,344,875</u>	<u>4,572,433</u>	<u>4,785,800</u>
Expenditures:			
Personal services and employee-related	742,502	754,747	797,900
Professional and outside services	99,290	161,783	165,000
Travel	39,050	35,163	38,000
Aid to individuals and organizations	3,292,870	3,144,042	3,609,200
Other operating	264,834	269,278	275,000
Equipment	<u>3,265</u>	<u>12,259</u>	<u>15,000</u>
Total expenditures	<u>4,441,811</u>	<u>4,377,272</u>	<u>4,900,100</u>
Excess of revenues over (under) expenditures	<u>(96,936)</u>	<u>195,161</u>	<u>(114,300)</u>
Other financial sources (uses)			
Net operating transfers in (out)	5,000	(370)	
Reversion to the State General Fund	(891)	_____	
Total other financing sources (uses)	<u>4,109</u>	<u>(370)</u>	_____
Excess of revenues over (under) expenditures and other financing uses	(92,827)	194,791	(114,300)
Fund balance, beginning of year	<u>463,840</u>	<u>371,013</u>	<u>565,804</u>
Fund balance, end of year	<u>\$ 371,013</u>	<u>\$ 565,804</u>	<u>\$ 451,504</u>

¹ Statement excludes the financial activity of the Arts Endowment Fund. See Table 2, page 7, for this information.

² Amount collected by the Corporation Commission and deposited in the Arizona Arts Trust Fund in accordance with Arizona Revised Statutes §10-122.E.

Source: Auditor General staff analysis of the Arizona Financial Information System *Revenues and Expenditures by Fund, Program, Organization, and Object, Status of Appropriations and Expenditures*, and *Trial Balance by Fund* reports for the years ended June 30, 1999 and 2000; the *State of Arizona Appropriations Report* for the year ending June 30, 2001; and the Department-provided estimates for the year ending June 30, 2001.

Arizona's Arts Endowment Program

The Commission also receives additional public monies as well as private monies through its endowment program known as Arizona ArtShare. In 1996, the Legislature established an endowment program to create a public-private partnership for the future support of the arts in Arizona through a long-term commitment of both public and private monies.

Arizona ArtShare is a public-private partnership for the future funding of the arts in Arizona.

- **State Contributions**—State contributions to ArtShare are placed in the Arizona Arts Endowment Fund (Endowment Fund). The State Treasurer invests these monies to provide income to the Commission. Beginning in fiscal year 1998, the Endowment Fund has received \$2 million annually from state sales taxes collected on admission to entertainment events, and will receive up to \$2 million each year through 2007 for an estimated total principal investment of \$20 million. As illustrated in Table 2 (see page 7), the Endowment Fund has received \$6 million in state monies through the end of fiscal year 2000. According to statute, the Commission can spend only the income earned from investments. The Commission estimates that in fiscal year 2001, the Endowment Fund will generate an additional \$250,000 for the Commission's use.

- **Private Contributions**—Additionally, the Commission will be able to use investment income generated from private monies donated to and invested by two private nonprofit charitable organizations under contract with the Commission. Private foundations are used to manage private donations because private donors are often hesitant to contribute to government-run endowments. While the donated funds become assets of the foundations, investment income will be used to benefit the Commission. One contractor had received approximately \$1.2 million in donations and pledges through December 2000, while the other contractor had not yet received any donations or pledges.

Table 2

**Arizona Commission on the Arts
Arizona Arts Endowment Fund, A Nonexpendable Trust Fund ¹
Statement of Revenues, Expenses, and Changes in Fund Balance
Years Ended or Ending June 30, 1998, 1999, 2000, and 2001
(Unaudited)**

	1998 (Actual)	1999 (Actual)	2000 (Actual)	2001 (Estimated)
Revenues:				
State sales taxes ²	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000
Interest		<u>88,599</u>	<u>227,796</u>	<u>250,000</u>
Total revenues	<u>2,000,000</u>	<u>2,088,599</u>	<u>2,227,796</u>	<u>2,250,000</u>
Expenses ²	<u> </u>	<u> </u>	<u>48,000</u>	<u>187,000</u>
Excess of revenues over expenses	2,000,000	2,088,599	2,179,796	2,063,000
Fund balance, beginning of year	<u> </u>	<u>2,000,000</u>	<u>4,088,599</u>	<u>6,268,395</u>
Fund balance, end of year	<u>\$2,000,000</u>	<u>\$4,088,599</u>	<u>\$6,268,395</u>	<u>\$8,331,395</u>
Fund balance at the end of year consists of:				
Reserved	\$2,000,000	\$4,000,000	\$6,000,000	\$8,000,000
Unreserved		88,599	268,395	331,395
Total fund balance, end of year	<u>\$2,000,000</u>	<u>\$4,088,599</u>	<u>\$6,268,395</u>	<u>\$8,331,395</u>

¹ The Commission is prohibited from spending appropriations; however, it is permitted to spend the interest earned to support arts programs.

² The Department is appropriated \$2,000,000 from state sales taxes collected on admissions to entertainment events in accordance with Laws 1996, Chapter 186. Expenses consist solely of grants awarded to arts organizations.

Source: Auditor General staff analysis of the Arizona Financial Information System *Revenues and Expenditures by Fund, Program, Organization, and Object* and *Trial Balance by Fund* reports for the years ended June 30, 1998, 1999, and 2000; and Department-provided estimates for the year ending June 30, 2001.

- **Donations to Private Arts Endowments**—As part of ArtShare, the Commission also tracks donations made to private organizations’ arts endowment funds. The Commission reports that as of December 2000, private arts endowments had received over \$18.6 million since ArtShare was established in 1996. However, these donations are invested and used by the organizations that receive them and the Commission does not have any input into how they are spent.

1981 Report and Update

The Auditor General's last Sunset review was conducted in 1981 and recommended that the Commission improve in two areas. The legislative Committee of Reference subsequently performed a Sunset review of the Commission in 1991, but it contained no recommendations other than continuance.

Auditor General staff revisited the concerns identified in the Commission's 1981 performance audit (see Auditor General Report No. 81-23). Below is a summary of the report's recommendations and their current status.

- **Peer-panel review of grant applications needed**—The 1981 report recommended that the Commission improve its grants award process by a) establishing a peer-panel system for the review of grant applications, b) making peer-panel-review meetings open to the public, c) providing an opportunity for grant applicants to respond to and, if necessary, appeal panel recommendations prior to final award decisions, and d) providing greater detail in written correspondence to unsuccessful grant applicants regarding reasons for denying applications.

Current status: The Commission uses peer review panels that hold meetings open to the public to evaluate most grant applications. At the culmination of their review, the panels make recommendations to the Commission regarding which applications should receive grant awards. The Commission has an appeals process for applicants who are not awarded grants. The Commission sends out standard rejection letters and, if asked by applicants, provides specific comments made by panel members regarding the applications and reasons for denial.

- **Commissioner attendance at quarterly meetings needed improvement**—The 1981 audit found that Commission members' poor attendance prevented the Commission from having a quorum for the duration of several meetings and hindered the Commission's decision making. The report recommended two measures to offset the problem's impact: (1) A.R.S. §41-981 should be amended to provide for the removal

of Commission members for excessive absenteeism, and (2) the Commission should establish in its bylaws standards for the meaning of excessive absenteeism and procedures for the removal of members who are excessively absent.

Current status: In 1982, the Legislature amended A.R.S. §41-981. It now states that three unexcused absences from consecutive Commission meetings shall be considered an abandonment of a Commission member's appointment and the Governor shall appoint a person to fill the unexpired term. Based on auditors' review of the Commission's recent meeting minutes, absenteeism has not been a problem.

Audit Scope and Methodology

During the course of the audit, auditors focused on the Commission's grants program and Arizona's arts endowment program after they assessed several program areas administered by the Commission. The program areas reviewed include programs that coordinate multiple arts education initiatives, encourage the growth and expansion of Arizona's ethnic artistic traditions, and assist local governments in obtaining works of art for permanent installation in public areas. These activities appear to be well managed based on this review. Further, state arts commissions are periodically reviewed by the National Endowment for the Arts, in part to determine how much federal funding they are eligible to receive. In January 2000, the Commission was scored as the best arts commission among its pool of 14 commissions (see Sunset Factor No. 2 on pages 26 through 27 for additional information).

This performance audit and Sunset review presents two findings. The first finding explains how the Commission's grants affect Arizona's arts organizations. The second finding reports that the Commission needs to better manage and more appropriately report private donations to its endowment program. In addition, this report presents responses to the 12 statutory Sunset factors (see pages 25 through 34).

Auditors used the following research methods for this review:

- To determine how the Commission's grants affect Arizona's arts organizations, auditors reviewed a sample of 22 grant applications and compared them to the grant requirements to ensure that the grant recipient provided all needed information. Auditors also interviewed applicants from all of the grant categories. This included interviewing representatives from Arizona's largest arts organizations and 25 representatives of smaller arts organizations, educational institutions, and other organizations who applied for general operating and project grants. This included some applicants whose grant applications had been denied. Finally, auditors interviewed representatives of 11 other states' arts commissions and the National Endowment for the Arts.¹

- To obtain information related to Arizona's arts endowment program, auditors reviewed statutes and legislative meeting minutes to determine the intent of creating the Arizona Arts Endowment Fund. Further, auditors interviewed representatives of the National Endowment for the Arts, two nonprofit charitable organizations that collect private contributions to the arts in Arizona, and four representatives of arts industry associations to learn more about the reasons for establishing arts endowments. Finally, auditors reviewed quarterly financial reports provided by one of the contractors who manages and invests private contributions to the endowment program.

This audit was conducted in accordance with government auditing standards.

The Auditor General and staff express appreciation to the Commission on the Arts, its executive director, and staff for their cooperation and assistance throughout the audit.

¹ Auditors interviewed representatives from the following 11 states regarding their granting practices: Delaware, Indiana, Iowa, Minnesota, Missouri, Montana, Nebraska, New Jersey, North Dakota, Texas, and Utah.

FINDING I

THE COMMISSION'S GRANTS PROVIDE VARIED BENEFITS TO ORGANIZATIONS AND PROJECTS STATEWIDE

The Arizona Commission on the Arts provides grants that benefit arts organizations that serve the public throughout the State. The Commission grants a large portion of its budget through general operating and project grants to arts organizations. The Commission's general operating grants assist arts organizations with administrative expenses and support the services they provide to the public. The Commission's project grants cover costs associated with arts education and various other artistic projects that help provide accessibility to art endeavors statewide.

The Commission Devotes Most of Its Resources to Grants

The Commission, like several other states' arts agencies, spends much of its budget on grants to organizations. There are two types of organizational grants—general operating grants and project grants. Arts agencies in 10 of the 11 other states auditors contacted likewise provide operating grants, and all 11 provide project grants.¹

- **General operating grants** provide monies to Arizona arts organizations to assist with administrative expenses, including large organizations, such as the Phoenix Art Museum, and small organizations, such as the Bisbee Community Chorus.
- **Project grants** support two types of projects: 1) arts education projects, such as in-school and after-school art classes taught by artists, and 2) other artistic projects, such as dance performances and art festivals.

¹ Texas does not provide general operating support grants to arts organizations.

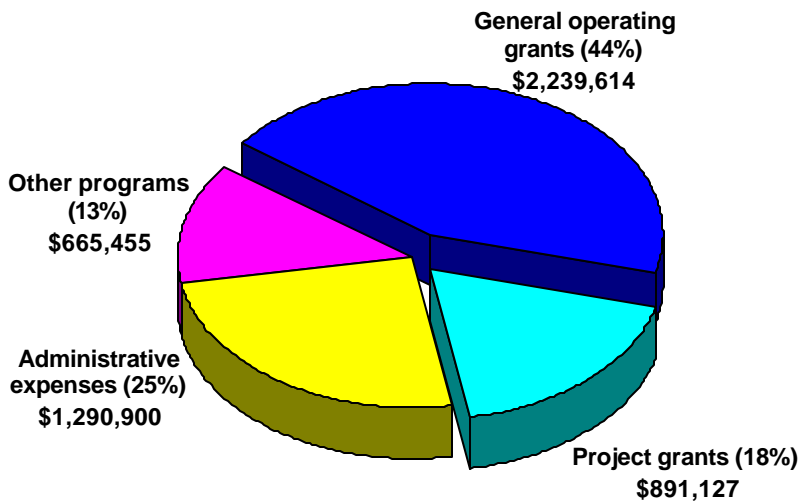
Finding I

The Commission devotes nearly two-thirds of its spending to grants to organizations.

The Commission devotes nearly two-thirds of its spending to these two types of grants (see Figure 1). In fiscal year 2001, the Commission estimates that it will award nearly 600 grants totaling more than \$3 million to nonprofit organizations, schools, and government entities. Approximately 44 percent of the Commission's spending will go to general operating grants for arts organizations, and 18 percent will go to arts project grants.

Figure 1

**Arizona Commission on the Arts
Estimated Spending¹
Year Ending June 30, 2001
(Unaudited)**



¹ Includes approximately \$4.9 million of expenditures for fiscal year 2001 and \$187,000 from the Endowment Fund.

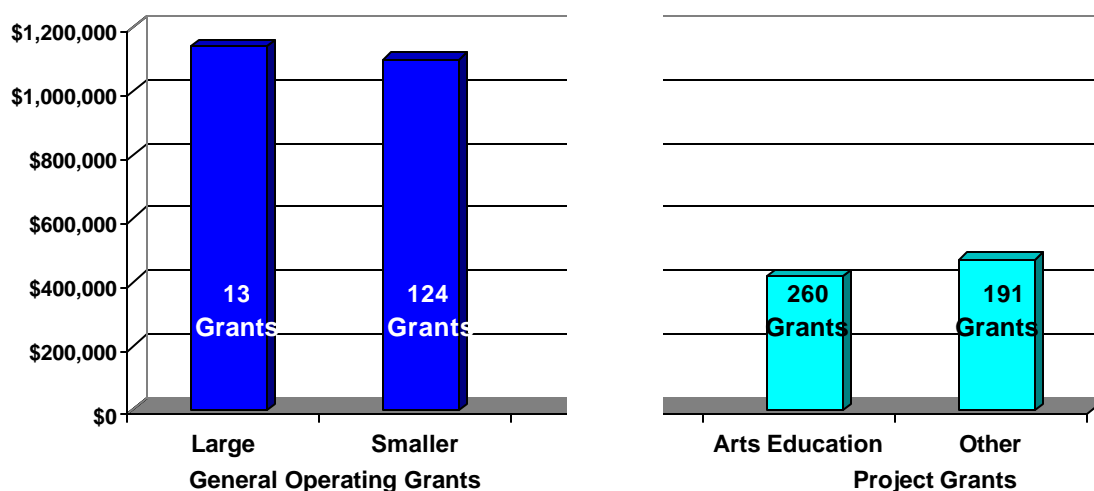
Source: Auditor General staff analysis of the Arizona Commission on the Arts grants database and estimated spending for fiscal year 2001 provided by Commission staff.

As Figure 2 (see page 13) shows, the Commission's general operating grants for 2001 were split about evenly between large organizations (those with annual operating budgets of more than

\$500,000) and smaller organizations (those with annual budgets of \$50,000 to \$500,000). Similarly, awards for project grants were split about evenly between arts education projects and other types of projects.

Figure 2

**Arizona Commission on the Arts
Amount and Number of Estimated Distributions of
Operating Grants by Size of Arts Organization and
Project Grants by Purpose
Year Ending June 30, 2001**



Source: Auditor General staff analysis of the Arizona Commission on the Arts grants database and estimated expenditures for fiscal year 2001, provided by the Commission staff.

**General Operating Grants
Provide Varying Benefits
to Arts Organizations**

The benefits of general operating grants vary somewhat, depending on whether the organization is large or small. The Commission's grants to large organizations generally constitute less of the organizations' total budget than for smaller organizations. Representatives of large organizations said the grants' benefits included the ability to fund necessary activities that

might not draw private contributions, and enhanced credibility in attracting donations from other sources. Representatives of smaller organizations said administrative grants funded projects and programs that might otherwise be scaled back or not occur at all.

For large organizations, operating grants help provide services and increase credibility—In fiscal year 2001, the Commission estimates that it will distribute approximately \$1.14 million to Arizona’s 13 major arts organizations. Individual grants ranged from approximately \$29,000 to \$167,000. Table 3 (see page 15), shows the 13 organizations and the amount of each organization’s grant. The Commission began granting a substantial portion of its budget to large arts organizations in 1989, when many of these organizations were struggling financially. Now, most of these organizations said they could continue to operate without the Commission’s support. In fiscal year 2001, general operating grants to large organizations fund 2.3 percent of each organization’s operating budget. However, representatives of the organizations said Commission funding is vital to their ability to provide a variety of programs and services to the public. They described three main types of benefits, as follows:

- **Flexibility**—Grants from the Commission provide greater financial flexibility than most other funding they receive. Many other donations are designated to sponsor specific projects, but the Commission’s operating grant can be used to support a variety of expenses. Recipient organizations indicated that they use the grant monies to cover such things as employee salaries, starting new productions, and reduced ticket prices.
- **Credibility**—The organizations reported that receiving an operating grant from the Commission acts as a “seal of approval” that gives them added credibility with the public and helps them raise additional funding from private sources.
- **Increased education programs**—Many organizations said that without the Commission’s general operating support, they would likely increase prices or cut their education programs. For example, the Phoenix Symphony Orchestra said that it now performs for approximately 250,000 people per

Finding I

year, including educational concerts for 35,000 students. Without the Commission's support, the Orchestra said that it would likely provide fewer educational concerts.

For smaller organizations, operating grants help with core operations—The Commission's general operating grants to smaller arts organizations are critical to core operations, according to or-

Table 3

**Arizona Commission on the Arts
General Operating Grants
Awarded to Large Arts Organizations
Year Ending June 30, 2001
(Unaudited)**

Organization	Awarded
Phoenix Art Museum	\$ 167,376
Phoenix Symphony Association	162,384
Scottsdale Cultural Council	135,758
Heard Museum	126,274
Arizona Theatre Company	120,053
Arizona Opera Company	99,131
Ballet Arizona	67,159
Tucson Museum of Art	56,182
Tucson Symphony Orchestra	53,976
Museum of Northern Arizona	52,346
Childsplay, Inc.	36,000
Tucson-Pima Arts Council	35,626
Phoenix Arts Commission	<u>28,731</u>
Total	<u>\$1,140,996</u>

Source: Auditor General staff summary of data in the Arizona Commission on the Arts' fiscal year 2001 grants database.

ganization representatives auditors contacted. These grants, while generally smaller than those for large organizations, nonetheless provide a greater portion of total funding to the organizations that receive them. These grants equal up to 10 percent of their operating budgets, or up to 50 percent of the organization's full-time director's salary. In fiscal year 2001, the Commission

awarded approximately \$1.1 million in general operating support to 124 developing organizations, ranging from \$600 to \$36,000. All but 17 of these organizations received operating support in the previous year. Grant recipients auditors contacted reported that the grants are critical to their organizations in several ways:¹

- **Meeting basic administrative expenses**—Organizations reported that the operating grants help pay for administrative costs such as employing art directors. For example, the White Mountain Apache Heritage Museum’s \$9,000 grant is used to support its director’s salary. Without the grant, the Museum said that it would be difficult to maintain a full-time professional director.
- **Offering projects and services**—Organizations said that the operating grants help them maintain their current projects and services. Without this funding, some organizations reported that they would likely scale back their services and hours of operation. For example, the Santa Cruz Valley Art Association uses a portion of its \$14,823 grant to support a children’s summer art program. However, without the grant, the organization reported that it may not be able to continue the program.
- **Increasing accessibility to the arts**—Organizations reported that the Commission’s operating grants help them make arts more accessible to children, as well as rural and ethnic communities. For example, the Black Theatre Troupe said that the Commission’s \$10,970 grant is one of the few sources that support ethnic arts organizations. This organization provides a unique service to the community and enhances awareness of African-American culture.

¹ Auditors interviewed representatives of four smaller arts organizations that received operating grants: Black Theatre Troupe, Great Arizona Puppet Theatre, Santa Cruz Valley Art Association, and White Mountain Apache Heritage Museum.

Project Grants Are Vital to Arts Endeavors Throughout the State

Project grants for arts education and other artistic projects, the other main category of organizational grant funding, had a similar range of uses, according to representatives of the organizations that received such grants. These grants tend to be smaller than administrative grants. In general, these grants help extend art programs and projects to persons and groups that might not otherwise receive them.

Education project grants benefit Arizona's school-children.

Project grants fund arts education efforts that benefit many Arizona children—The Commission's grants for education-specific projects serve children in over 200 schools and in community organizations statewide. Schools and organizations that receive arts education grants are typically eligible to receive grants that cover up to 50 percent of the projects' costs. Recipients use the grant monies to cover expenses such as bringing an artist to a school to provide instruction in a specific art form or after-school art programs for at-risk youth. In fiscal year 2001, the Commission awarded 260 arts education project grants that totaled approximately \$420,000. At least 35 of the recipients had not received project grants the previous year. The grants ranged from \$500 to \$6,000 each and include the following:

- The Tucson Unified School District was awarded a \$4,125 grant to hire arts instructors to help over 100 teachers learn how to implement the Arizona Department of Education's art education standards for K-12 students and how to teach fine arts and performing arts.
- The Arizona Department of Juvenile Corrections was awarded a \$3,600 grant to help bring in various artists to teach art forms, such as creative writing and drawing, to 93 children in custody at its Adobe Mountain, Black Canyon, and Catalina facilities.
- Alpine Elementary School, in Alpine, was awarded a \$1,450 grant to cover a portion of the fee for a visiting folk artist. For 10 days, the artist will teach folk arts to approximately 35 students, hold a workshop for 8 teachers and aides, and help the children perform for more than 100 people.

Education grant recipients that auditors spoke with said community organizations and schools depend on the grants to serve

Photo 1: Arts education project



Photograph by David Barr provided by the Arizona Commission on the Arts.

their communities—principally their youth.¹ Specifically, these monies enable children to observe and participate in the arts, including art forms that are unfamiliar to them. Further, some of the grant recipients said that it would be difficult or impossible to continue the programs without the Commission’s support. For example, the City of Casa Grande’s Recreation Department was awarded an arts education grant for \$2,459 that helps pay a visiting artist for an after-school program. The Department said that the program would not likely happen without the grant.

Many art endeavors throughout the State depend on the Commission’s project support—In addition to education-specific project grants, the Commission also distributes grants that support a variety of arts projects, including theatre productions, festivals, and music performances throughout the State. Like arts education grants, these other project grants can cover up to one-half of a project’s costs, typically covering expenses such as artist’s fees. In fiscal year 2001, the Commission awarded approximately

¹ Auditors interviewed representatives from six organizations that received education grants: Alpine Elementary School, Arcadia Neighborhood Learning Center, Arizona Department of Juvenile Corrections, City of Casa Grande Recreation Department, and YMCA South Mountain and Chris-Town Branches.

\$471,000 in grants for 191 arts projects, 48 of which did not receive funding the previous year. The awards can range from approximately \$500 to \$10,000 each and included the following:

- The Gila Valley Arts Council in Safford was awarded \$6,500 for its “Bach to Blues” program in which various music artists are hired to work with schoolchildren and to perform for the community. The Council estimates that in 2001, these artists will work with nearly 8,000 students and participate in 7 community performances.
- The Frank Lloyd Wright Foundation of Scottsdale was awarded \$3,375 to help pay for the conservation of Frank Lloyd Wright’s architectural drawings.
- Chicanos por la Causa of Tucson was awarded \$2,925 to display ethnic artwork for a two-day arts and cultural festival. Over 40,000 people typically attend this event.

Photo 2: Arts festival project



Photograph by David Barr provided by the Arizona Commission on the Arts.

Grant recipients auditors contacted stressed the importance of the grants in providing opportunities for arts experiences state-wide.¹ Several of the sponsored projects target particular popula-

¹ Auditors interviewed representatives of seven organizations that received project grants: Black Theatre Troupe, Chicanos por la Causa, Eastern Arizona College, Frank Lloyd Wright Foundation, Foundation for Blind Children, Great Arizona Puppet Theatre, and Santa Cruz Valley Art Association.

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Nearly one-half of 2001 projects will serve rural, ethnic, and/or disabled populations.

tions, including rural communities and ethnic minorities. The Commission reports that over 45 percent of the 2001 projects will serve rural, ethnic, and/or disabled populations. Commission-funded projects will occur in 13 of Arizona's 15 counties.¹ Most recipients also said it would be difficult for the programs to continue without the Commission's grants. Several said that the programs would be either scaled back or canceled without the Commission's support.

Recommendation

This finding provides information only. Therefore, no recommendations are presented.

¹ The Commission did not award project grants for projects occurring in La Paz or Greenlee Counties in fiscal year 2001. However, organizations in these counties received other types of Commission grants.

FINDING II

THE COMMISSION NEEDS TO IMPROVE ITS MANAGEMENT OF THE ENDOWMENT PROGRAM

The Commission needs to improve its management and oversight of private donations to Arizona ArtShare, the State's public-private endowment program. A foundation under contract with the Commission to receive and invest private donations to ArtShare overcharged for its administrative services, but the Commission did not identify the error due to inadequate contract oversight. Additionally, the Commission used about \$3,000 of private donations for purposes that, while related to the arts, were not consistent with statutes and Commission guidelines. Finally, the Commission has established a rule that requires it to consider donations to private arts endowments as matches to the State's contributions to the Endowment Fund; however, this rule is inconsistent with statute and should be revised.

A Contracted Foundation Overcharged for Its Administrative Services

Contractors are used to collect and invest private donations to ArtShare.

A foundation under contract with the Commission to receive and invest private donations to ArtShare overcharged for its administrative services, but the Commission did not identify the error due to inadequate contract oversight. Because donors may be reluctant to contribute to a government-run endowment, Arizona, like some other states, contracts with private nonprofit foundations to manage private donations to ArtShare. The foundations are paid for their services by retaining an agreed-upon portion of the monies they administer. However, in 1999 and 2000, one of the foundations deducted more than three times the amount it should have for its administrative fees according to its contract with the Commission. First, the foundation deducted

a higher percentage for its fees than it should have. Second, the foundation also applied that percentage to the value of pledges it has not yet received. Before auditors identified this error, the contractor had deducted \$17,550 more than it should have. The Commission was made aware of this situation during the audit and recovered these monies from the foundation in March 2001. Finally, the foundation has been inappropriately deducting its administrative fee monthly. However, the contract states that the fee shall be drawn by the foundation “ *at such times coincident with the distribution*” of the income.

The Commission did not review quarterly reports from a contractor.

Better oversight of the Commission’s contracts with such foundations could prevent similar problems from occurring in the future. The foundation submits quarterly statements to the Commission that report private donations collected, investment activity, and the amounts deducted for administrative services; however, the Commission had not been reviewing these reports. Such reviews are essential to ensure that the monies are properly managed and that the foundations are complying with the contracts.

Some Expenditures Were Not Consistent with Statutes and Commission Guidelines

The Commission used a portion of the investment income from private monies for purposes not consistent with statutory requirements and the Commission’s own policies. In 2000, the Commission used approximately \$3,000 of investment income to pay for the creation of a database, phone expenses, and other promotional expenses related to the ArtShare program. While these expenses were related to ArtShare, these purchases were inconsistent with statute because they were not used “ *in conjunction with*” interest earned from state contributions to the Arizona Arts Endowment Fund, as required by A.R.S. §41-986(E). Second, these purchases were not consistent with the Commission’s own policies requiring ArtShare monies to be used to support specific purposes, such as management training and administrative expenses for arts organizations, as well as arts education endeavors.

Commission Overstates Private Contributions to the Endowment Fund

The Commission's method of reporting private matches to the Arizona Arts Endowment Fund is inconsistent with statute and does not accurately reflect how much is being contributed. A.R.S. §41-986(F) requires the Commission to report the amount of private monies donated for use *in conjunction* with monies from the Endowment Fund. However, the Commission has adopted a rule, R2-2-102, that requires it to count contributions to private organizations' arts endowment funds as matches to the Endowment Fund, even though these monies are not for the Commission's use. This Office's legal counsel determined that this rule is inconsistent with statute. Further, the only monies that should be considered as a match are those contributed to the two nonprofit charitable foundations under contract with the Commission which will be used *in conjunction* with monies from the Endowment Fund. The Governor's Regulatory Review Council and Joint Legislative Budget Committee staff have agreed with this conclusion. Therefore, the Commission should revise R2-2-102 to no longer require the Commission to consider donations to private arts endowment funds as matches to the Arizona Arts Endowment Fund.

Because the Commission considers donations to private arts endowment funds as matches to the State's contributions, it has overstated the success of the Endowment Fund. Commission reports indicate that from 1996 to the end of 2000, donors contributed approximately \$19.8 million as private matches to the \$6 million contributed by the State to the Endowment Fund. However, only approximately \$1.2 million received by a charitable foundation under contract with the Commission should be counted as matches.¹ The remaining \$18.6 million went to 14 other private organizations' arts endowment funds. While the Commission should continue to report these monies, it should not consider them as matches to the Endowment Fund.

¹ This includes approximately \$664,000 in donations that have been received by one of the foundations and approximately \$492,000 in pledges that have yet to be collected. Another foundation under contract with the Commission had not yet received any donations through the end of April 2001.

Recommendations

1. To ensure that the foundations under contract with the Commission to receive and invest private donations to ArtShare deduct the proper amount of administrative fees, and fully comply with the terms of the contract, the Commission should thoroughly review all quarterly reports provided by the foundations and immediately notify them of any problems that need to be corrected.
2. The Commission should ensure that it expends investment income from private donations only in conjunction with interest earned from the Endowment Fund and in accordance with its own established policies for ArtShare monies.
3. The Commission should revise its rule R2-2-102 related to counting donations to private arts endowment funds as matches to the Arizona Arts Endowment Fund because it is inconsistent with statute.
4. The Commission should discontinue reporting donations to private endowments as a match to the Arizona Arts Endowment Fund.

SUNSET FACTORS

In accordance with A.R.S. §41-2954, the Legislature should consider the following 12 factors in determining whether to continue or terminate the Arizona Commission on the Arts (Commission).

1. Objective and purpose in establishing the Commission.

The Arizona Commission on the Arts was originally established as the Arizona Commission on the Arts and Humanities by executive order of the Governor in 1966 and, one year later, the Legislature established the Commission as a permanent state agency. In 1982, the Legislature changed the agency's name to the Arizona Commission on the Arts.

The Commission's mission is "To enhance the artistic development of all Arizona Communities, arts organizations and artists through innovative partnerships and stewardship of public funds."

The Commission has a number of statutorily required duties that include:

- Stimulating the arts in Arizona by encouraging the study and presentation of the arts as well as encouraging public interest and participation;
- Working with arts organizations in the State to encourage public participation in and appreciation of the arts; and
- Encouraging public interest in the State's cultural heritage and expanding the State's cultural resources.

The Commission was also established to receive and disburse federal funding from the National Endowment for the Arts (NEA) on Arizona's behalf.

2. The effectiveness with which the Commission has met its objective and purpose and the efficiency with which the Commission has operated.

The Commission appears to effectively meet its objective and purpose and generally operates efficiently. It has consistently been ranked as one of the best arts commissions in the country by the NEA. The NEA evaluates the processes of each state arts commission periodically as part of its competitive state's aid grant application process.¹ The evaluation is based on the commissions' basic plan for the arts in their states, the quality of the strategies used to advance arts education, and the strategies for involving underserved communities in the arts. In January 2000, the NEA scored Arizona as the best commission among its pool of 14 arts commissions.²

Receiving a good evaluation by the NEA increases the federal funding the Commission receives. All states with arts commissions currently receive a minimum of \$200,000 annually from the NEA, and additional funding is based on the state's size and evaluation in the three areas previously mentioned. Arizona scored especially well in the arts education and underserved community components of the evaluations and received more federal assistance based on its evaluations in those areas than many

¹ Fiscal year 2000 was the final year that the NEA performed biennial evaluations of state arts commissions. It recently completed a transition to a three-year evaluation schedule in which it evaluates one-third of the states each year.

² The 13 other arts commissions in Arizona's NEA evaluation pool were Arkansas, the District of Columbia, Florida, Guam, Idaho, Illinois, Kentucky, Louisiana, Michigan, Montana, Nevada, New Hampshire, and Tennessee.

larger states.¹ The Commission's fiscal year 2001 total funding from the NEA will exceed \$600,000 and be the twelfth highest in the country.

Further, the Commission fulfills its objective of stimulating the arts in Arizona through its grants program (see Finding I, pages 11 through 20). Through a competitive peer review process, the Commission awards grants to several organizations in Arizona to help pay administrative expenses and for specific arts projects. In fiscal year 2001, the Commission will issue nearly 600 grants totaling more than \$3 million. The Commission is continually working to streamline and improve the granting process. Most applicants auditors spoke with, including those who had been rejected for funding, reported that they were satisfied with the Commission's administration of the grants process.

Finally, the Commission's grants and other services also help fulfill its purpose of developing the management skills of Arizona's artists and arts organizations. The Commission issues several grants that help developing arts organizations, such as museums and theatre companies, hire full-time professional managers. The Commission also offers professional development grants up to \$750 that help artists and representatives of Arizona's small arts organizations attend out-of-state conferences and workshops. Additionally, the Commission offers year-round assistance in areas such as marketing, fundraising, and developing on-line capabilities.

3. The extent to which the Commission has operated within the public interest.

The Commission has generally operated in the public interest through its grants and other program areas; however, the Commission did not act in the public interest when it failed to identify that one of the foundations contracted to receive and invest private donations to its en-

¹ The Commission received more NEA funding in these areas than California, Florida, Illinois, Michigan, Pennsylvania, and Texas.

dowment program was overcharging for administrative fees.

The Commission's grants program supports arts organizations and art projects throughout the State. In fiscal year 2001, grants were issued to support organizations or projects in all counties and all legislative districts. Additionally, through its outreach efforts, the Commission strives to ensure that new applicants apply for grants each year. This includes finding and encouraging new applicants to apply and providing assistance to help all applicants produce competitive applications. For fiscal years 1999 and 2000, the Commission did indicate that over 20 percent of its grant recipients had not applied for grants the previous year.

In addition to its grants program, the Commission operates in the public interest through several other services it provides:

- First, the Commission maintains a roster of Arizona artists that schools and other organizations may use when selecting artists from various disciplines to speak or perform for them. The roster benefits the organizations seeking artists by screening artists and helping the organizations choose those that are appropriate for their objectives and who demonstrate high artistic quality. The roster also gives exposure to many of Arizona's artists.
- Second, the Commission's Traveling Exhibition program provides rural communities that often do not have access to museums with the opportunity to host artwork in their own communities. Urban centers may also host traveling exhibitions to complement the State's museums. Hosting organizations pay a fee to help cover the Commission's costs of organizing and transporting the exhibitions. These exhibitions may also be sent out of state, providing greater exposure to Arizona artists' work.

- Third, the Commission maintains a non-circulating library of arts industry information available to arts organizations and working artists. The library maintains current publications regarding arts fund-raising, publicity, and organization management.

While the Commission has acted in the public interest through its grants program and other services, it did not act in the public interest when it failed to identify that a foundation contracted to collect and invest private donations designated to benefit the Commission was overcharging for its administrative fees. During 1999 and 2000, this foundation was deducting three times the amount it agreed to deduct in the contract for its administrative fees. Because the Commission failed to review quarterly financial statements provided by the foundation, it was unaware that the contractor was deducting more than it had agreed to.

4. The extent to which rules adopted by the Commission are consistent with the legislative mandate.

The Commission has not adopted all rules required by its statutes, and some rules the Commission has adopted are inconsistent with its statutes. According to the Governor's Regulatory Review Council, the Commission needs to promulgate rules to govern its grants program as required by statute. A.R.S. §41-983.02(B) requires the Commission to establish rules for administering the program, including grant applications and the criteria to be used when evaluating grant applications. The statute requires that this criteria include artistic quality, creativity, potential public exposure and benefit, and the recipient's ability to properly administer the granted funds. Additionally, the rules must establish criteria to ensure that a portion of grants are issued to organizations representing rural communities, disabled persons, and to artists from racial or ethnic minorities. The Commission has been made aware that these rules are needed and has begun drafting them.

As discussed in Finding II (see pages 21 through 24), the Commission has established a rule regarding matching private donations with money from the Arizona Arts Endowment Fund (Endowment Fund) that is inconsistent with statute. The Commission has established R2-2-102, which states that it shall consider monies donated to private arts endowment funds as matches to the Endowment Fund. However, according to statute, only monies donated to private funds established to benefit the Commission should be considered as a match. The Commission should discontinue reporting donations to private arts endowments as matches to the Arizona Arts Endowment Fund and revise the rule related to this practice.

5. **The extent to which the Commission has encouraged input from the public before promulgating its rules and regulations and the extent to which it has informed the public as to its actions and their expected impact on the public.**

The Commission is in compliance with Open Meeting Law requirements. The Commission has filed a notification statement with the Secretary of State's Office and meeting notices have been posted in the proper location at least 24 hours before Commission meetings. Meeting minutes are properly maintained for all of the Commission's public meetings, including quarterly Commission meetings and several volunteer grants panels that review applications each spring.

The Commission also informs the public of its actions through its Web site, workshops, and several publications. The Commission's Web site contains information regarding upcoming arts events, the grants application process, Commission meeting notices, and other news related to the arts in Arizona. Further, the Commission conducts many workshops that provide information on the grants process, and helps teach management skills to representatives of arts organizations. Additionally, in 1999 and 2000, the Commission held public meetings in 14 of 15 Arizona counties to obtain community input when developing its strategic plan. Finally, Commission

publications include its annual grants guide that describes available grants and how to apply for them; its annual report to the Governor, which provides information about all of its programs and lists all grant recipients from the previous year; and a newsletter published 10 times a year, which has information on upcoming arts events, such as conferences, opportunities such as grants and scholarships, and job openings with various arts organizations in Arizona.

6. The extent to which the Commission has been able to investigate and resolve complaints within its jurisdiction.

This factor does not apply since the Commission does not have investigative or regulatory authority.

7. The extent to which the Attorney General or any other applicable agency of state government has the authority to prosecute actions under enabling legislation.

This factor is not applicable because the Commission is not a regulatory agency with enforcement or oversight responsibilities.

8. The extent to which the Commission has addressed deficiencies in the enabling statutes which prevent it from fulfilling its statutory mandate.

The Commission has not sought any recent changes to its enabling statutes.

9. The extent to which changes are necessary in the laws of the Commission to adequately comply with the factors listed in the Sunset review statute.

The Legislature should consider amending the Commission's statutes to establish the position and responsibilities of the Commission's executive director and to clarify the role of the Commission chairperson. A.R.S. §41-981(B) states that the Governor shall designate one Commission member to serve as chairperson, and that the chairperson shall be the chief executive officer of the Commission. For most of its history, the Commission has employed an executive director who manages the Commission's day-to-day operations. However, the Commission's statutes make no mention of an executive director and do not allow the Commission to delegate discretionary responsibilities to anyone. For example, when the current executive director hires new staff, the Commission members must vote to ratify those employment decisions. Additionally, the Commission must approve all spending decisions. The Commission allows the current executive director to spend up to \$3,000 without its approval; however, statutorily, the Commission does not have the authority to delegate this type of authority. Both the current Commission chairperson and the executive director agree that it may not be practical for the Commission and its chairperson to approve all day-to-day management decisions because the Commission's budget and responsibilities have increased significantly since its creation in 1966.

10. The extent to which the termination of the Commission would significantly harm the public health, safety, or welfare.

Terminating the Commission would not significantly harm the public health, safety, and welfare of Arizona citizens; however, it could affect the public negatively in other ways.

First, without an arts commission, Arizona would be ineligible to receive or distribute federal arts funding from the National Endowment for the Arts. In fiscal year 2001,

Arizona will receive more than \$600,000 from the NEA. In fiscal year 2000, NEA funding was partially used to fund art organizations and projects throughout Arizona through the Commission's grants program. Currently, all 50 states, the District of Columbia, and 5 U.S. Territories have arts commissions or councils.

Second, many grant recipients auditors spoke with said that without the grant funding they received from the Commission, their services or projects would be significantly scaled down or may not occur. Many of these projects provide significant arts educational services in areas of the State that do not have access to art institutions or significant funding for arts education.

Third, the Commission acts as a catalyst for raising private funds to support the arts in Arizona. A large majority of grants issued by the Commission require that the receiving organizations match their state contributions with funding from other sources. Additionally, organizations of all sizes reported that receiving a Commission grant acts as a "seal of approval" from the State, which is effective in leveraging contributions from private sources.

- 11. The extent to which the level of regulation exercised by the agency is appropriate and whether less or more stringent levels of regulation would be appropriate.**

Since the Commission is not a regulatory body, this factor does not apply.

- 12. The extent to which the Commission has used private contractors in the performance of its duties and how effective use of private contractors could be accomplished.**

The Commission uses private contractors for management training for arts organization personnel, occasional graphic design work, and for assistance with computer network installation at the Commission's offices. One

contract with a nationally known arts organization was procured through the State Procurement Office for in-depth strategic and management planning training for mid-sized arts organizations. The Commission also has contracts with two nonprofit charitable organizations to collect and invest private contributions intended to match state contributions to the Endowment Fund. Currently, there do not appear to be any other opportunities for using private contractors.

AGENCY RESPONSE

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June 15, 2001

Debbie Davenport
Office of the Auditor General
2910 North 44 Street #410
Phoenix AZ 85018

Dear Ms. Davenport:

We received the report of the Sunset Audit and performance review of the Arizona Commission on the Arts.

We appreciated your staff's thoughtful report, their extensive research and their compliments about the work of the agency, its value locally and credibility nationally. We have the following responses to the report.

Program Fact Sheet:

Goals: The Commission believes that its goals accurately reflect the interactive, constituent-based process that involved hundreds of individuals in all counties that developed the strategic plan and hundreds more that endorsed the plan. The report particularly targets the sixth goal regarding resources. The Commission thoroughly discussed this goal and determined that it was vital and appropriate to include a distinct goal regarding resources. They discussed past planning processes where the plan was compromised by not weighting the need for resources equally with other goals.

Performance Measures: The Commission has developed a wide range of performance measures and indicators for its new strategic plan to learn from and improve the impact of its work. We are thoughtful about selecting performance measures that are reasonable to collect and which lead to improving the quality of the work.

We welcome and have used constructive input into the design and reporting of valid measures from training from the state and our national service organization. We did not find the statements about performance measures in the audit report useful.

There are reasons that the agency has chosen not to study the cost of grant workshops. Those workshops have multiple goals: information, public relations, grant assistance, networking. Multiple and differing staff participate in the workshops at differing salary levels and spend different amounts of time in the communities. It would be cumbersome to track grant workshops in isolation and we do not believe this knowledge would lead to increased understanding of the work or improvements.

The same holds true for determining percentage of school children that participate in Commission-sponsored events. We currently track the number of youth that participate in Commission-sponsored events. It is not possible to analyze that number in relation to the total number of students in schools. The same students may participate in several Commission-sponsored events. That would be unreasonable to track.

The Commission has corrected the inconsistency of wording in the documents used for collecting data.

In page iv and Page 32:

The agency agrees that it would be helpful to clarify the role of the executive director in the enabling legislation.

Finding II Recommendation 1, page 24:

The finding of the Auditor General is agreed to and the audit recommendation has been implemented. The agency has requested new reporting procedures from the Arizona Community Foundation that includes the monthly general ledger sheets. These sheets are easier to review and track administrative charges where the prior quarterly statements were not.

Finding II, Recommendation 2:

The finding of the Auditor General is agreed to and has been implemented. The expenditure identified was part of a project initiated and paid for by a small grant from the Arizona Community Foundation when ArtShare started. Its purpose was to support the initial administrative expenses of ArtShare, where none had been previously authorized or budgeted. This minor expenditure completed that project.

Finding II, Recommendation 3, page 24:

The agency does not agree with the Auditor General and will implement as described. We will study amending the rule to differentiate language regarding the two kinds of funds that are reported to the legislature.

The agency does not believe that it overstates the contributions to the Endowment Fund. The spirit and intent of the law was to stimulate community and arts organizations' thinking and contributing for the long-term support of the arts through endowments. The program has been a model of public/private collaboration in stimulating both state and private giving at all levels. Other states have used Arizona as a model to create similar programs.

The rule package was developed to comply with the intent implied in the legislation and approved through the process of the Governor's Regulatory Review Council. The agency was reporting in accordance with the adopted rules.

All reports clearly differentiate between those funds that are deposited in Arizona ArtShare accounts at either the Arizona Community Foundation or Community Foundation for Southern Arizona and in those accounts specifically for non-profit arts organizations. The agency is accurately disclosing the two different kinds of contributions that are made.

There is no way to determine with any certainty that contributions to endowments of arts organizations were or were not a result of the state's endowment fund.

The Joint Legislative Budget Committee has favorably accepted annual reports that separately document and report contributions to non-designated fund accounts over which the agency has authority for the distribution of the funds and the endowment gifts to arts organizations.

There is no language in the legislation that says the appropriation will be increased or reduced if the comparable funding is or is not reached. The agency believes it is making good faith efforts to document contributions to designated funds at the Arizona Community Foundation and Community Foundation for Southern Arizona as well as the successful efforts of non-profit arts organizations.

Finding II, Recommendation 4:

The agency agrees with the recommendation and will implement it. The agency will continue to report contributions to endowments of non-profit arts organizations separately as it has done and not call it match.

Contributions to create and increase endowments of non-profit arts organizations, as well as contributions to non-designated funds at the Arizona Community Foundation or Community Foundation for Southern Arizona, demonstrate a commitment to the long-term health of the arts in the state that has been enhanced by the legislative leadership in creating the Arts Endowment.

Thank you for the opportunity to respond in writing.

Sincerely,

Jane Jozoff
Chairperson

Shelley M. Cohn
Executive Director

Other Performance Audit Reports Issued Within the Last 12 Months

00-15	Arizona Department of Agriculture— Commodity Development	01-03	Arizona Department of Public Safety—Drug Abuse Resistance Education (D.A.R.E.) Program
00-16	Arizona Department of Agriculture— Pesticide Compliance and Worker Safety Program	01-04	Arizona Department of Corrections—Human Resources Management
00-17	Arizona Department of Agriculture— Sunset Factors	01-05	Arizona Department of Public Safety—Telecommunications Bureau
00-18	Arizona State Boxing Commission	01-06	Board of Osteopathic Examiners in Medicine and Surgery
00-19	Department of Economic Security— Division of Developmental Disabilities	01-07	Arizona Department of Corrections—Support Services
00-20	Arizona Department of Corrections— Security Operations	01-08	Arizona Game and Fish Commission and Department—Wildlife Management Program
00-20	Universities—Funding Study	01-09	Arizona Game and Fish Commission—Heritage Fund
00-21	Annual Evaluation—Arizona’s Family Literacy Program	01-10	Department of Public Safety— Licensing Bureau
01-01	Department of Economic Security— Child Support Enforcement		
01-02	Department of Economic Security— Healthy Families Program		

Future Performance Audit Reports

State Board of Chiropractic Examiners

Department of Real Estate

Department of Corrections—Private Prisons